

**TENNESSEE GENERAL ASSEMBLY  
FISCAL REVIEW COMMITTEE**



**FISCAL NOTE**

**SB 2626**

February 8, 2012

**SUMMARY OF BILL:** Extends the current sales tax exemption on motor vehicles purchased by members of military services and the active National Guard, to military members stationed outside of Tennessee, if they provide specified information as proof to county clerks or the Department of Revenue (DOR) that Tennessee is their permanent residence.

**ESTIMATED FISCAL IMPACT:**

**Decrease State Revenue – Net Impact - \$3,901,800**

**Decrease Local Revenue - \$320,700**

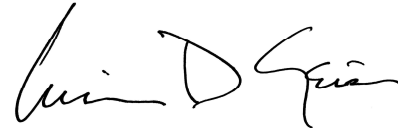
**Assumptions:**

- According to DOR, and based on data obtained from the Department of Defense (DOD), there were approximately 1,425,100 active duty members in military service as of September 30, 2011.
- According to DOR, and based on data obtained from DOD, approximately 1.9 percent (or 27,077) of active duty members in military service were from Tennessee.
- DOR estimates the number of active duty members in military service who are stationed in Tennessee and eligible for the exemption provided by current law to be approximately 2,550.
- Based on the information provided by DOR, the number of additional active duty members in military service that would become eligible for the expanded exemption as proposed under this bill would be approximately 24,527 (27,077 – 2,550). This number is assumed to remain constant into perpetuity.
- One hundred percent of eligible individuals take advantage of the exemption.
- Motor vehicles purchased by eligible active duty members of the military have an average life span of seven years; therefore, one in seven eligible individuals (or approximately 14.3 percent) will purchase a motor vehicle each year. As a result, approximately 3,507 motor vehicles (24,527 x 14.3%) will be purchased each year by eligible active duty members of the military.
- Fifty percent will purchase new vehicles at an average price of \$20,000; the remaining 50 percent will purchase previously-owned vehicles at an average price of \$12,000.

- Total annual sales are estimated to be \$56,112,000  $[(3,507 \times 50\% \times \$20,000) + (3,507 \times 50\% \times \$12,000)]$ .
- The current state sales tax rate is 7.0 percent; the state single article sales tax rate (which is levied on the portion of the purchase price above \$1,600 and below \$3,200) is 2.75 percent; and the average local option sales tax rate (which can only be levied on the first \$1,600 of the purchase price) is estimated to be 2.5 percent.
- The total recurring decrease in state sales tax revenue is estimated to be \$4,082,148  $[(\$56,112,000 \times 7.0\%) + (3,507 \times \$1,600 \times 2.75\%)]$ ; the recurring decrease in local option sales tax revenue is estimated to be \$140,280  $(3,507 \times \$1,600 \times 2.5\%)$ .
- Pursuant to Tenn. Code Ann. § 67-6-103(a)(3)(A), local governments receive 4.5925 percent of all state sales tax revenue as state-shared sales tax revenue. This apportionment does not apply to state revenue collected pursuant to the single article tax. Pursuant to Tenn. Code Ann. § 67-6-202(a), single article tax shall be a state tax for state purposes only.
- The net recurring decrease in state revenue is estimated to be \$3,901,762  $[\$4,082,148 - (\$56,112,000 \times 7.0\% \times 4.5925\%)]$ .
- The total recurring decrease in local revenue is estimated to be \$320,666  $[\$140,280 + (\$56,112,000 \times 7.0\% \times 4.5925\%)]$ .

## **CERTIFICATION:**

The information contained herein is true and correct to the best of my knowledge.



Lucian D. Geise, Executive Director

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